Hilton

Testimony of

Jerry Gibson
Area Vice President
Hilton

Bill 31 (2017)
Determining the Real Property Tax Rates
For the City & County of Honolulu

Chair Menor and Members of the Honolulu City Council:

My name is Jerry Gibson and I represent our Hilton properties across the state.

I am testifying in opposition to Bill 31 (2017), which establishes the real property tax rates to fund the budget of the City and County of Honolulu for the Fiscal Year beginning July 1, 2017. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and we oppose the increase to $13.40 per $1,000 of assessed value.

The reasons for our opposition are as follows:

High Property Values: With a rebounding economy, powered in large part by a strong visitor industry, real property values have increased 10 percent to 15 percent, with a resultant increase in tax revenue. As proposed by the City administration, the additional tax revenue already produced by higher property values and an active real estate market, is to be further increased by raising the tax rate for hotels and resorts, in effect giving the City another 3.9 percent increase.

State Legislature Proposal: The 2017 Legislature is considering the imposition of a surcharge on county real property taxes to underwrite pay increases for public school teachers. That legislation, if enacted, would further increase the burden on taxpayers across the state.

Industry Competitiveness: The hospitality industry, which competes nationally and internationally against lower-priced destinations, cannot continue to pass on tax increases to our visitors while concurrently dealing with the state's high cost of living. While national comparisons on taxes are numerous, there is no denying that Hawaiʻi consistently ranks among the jurisdictions with the highest tax rates for lodging accommodations. **We have the nation's highest lodging taxes at 13.25 percent, which include our transient accommodations and general excise taxes.** Hawaiʻi also has the second- highest year-over-year growth in lodging tax revenue at 9.5 percent.

We are keenly aware of our position in the visitor market and the cost of a Hawaiʻi vacation. Any forces that adversely affect our ability to compete, such as having to pass along higher taxes, also impact our appeal as a visitor destination, the availability of money to invest in new hotel properties or renovate existing ones, and employment within the hospitality industry and related travel businesses, all of which has a ripple effect across our entire economy.

Economic Slowdown: All signs are pointing to an economic slowdown. As construction costs continue to remain high we have noted that there are new projects that have stalled during this time. In the same realm we have also noticed that with rising costs it has become harder to reinvest in our product without the additional help of offshore investors. It is accurate to note that some of our state's largest lodging companies have had to downsize or sell in recent times.

Impact of Hawai'i's Workforce: The cost of doing business in Hawai'i is already at a point where companies are having a difficult time turning equitable profits. The addition of increased taxes would produce an extra burden on our hotels and resorts forcing them to go down a path they have done a good job at avoiding: cutting operational costs and ultimately workforce. We are aware that the hospitality industry is the number one private sector employer in the state as well as one of the highest taxed economic sectors, further levies would result in less jobs, employment cut backs, and curtailment of incentives.

Government Spending: The administration should look at cutting spending internally before taxing externally. Rather than expanding government services by creating new agencies and public sector jobs which would not only require startup funds but ongoing operational costs, the priority should be streamlining government. The City can look at tapping the wealth of expertise and experience of long- time City employees and retirees to bring their ideas to the fore. Vacant funded positions should be trimmed, and there are undoubtedly other programs and services that can be evaluated to improve efficiency and effectiveness without raising taxes. A prime example of this growth in government is portrayed between fiscal years 2015 – 2018 where the administration added over 300 positions to the payroll.

Transient Vacation Rentals: The state and county governments continue to struggle with a solution to the problem of thousands of illegal transient vacation rentals and their failure to pay their general excise and transient accommodations taxes. The Legislature is again considering legislation to allow online booking services to collect these taxes from travelers. The uncollected money could represent tens of millions of dollars, and there is no sound reason for the City and County of Honolulu not to pursue this source of revenue in partnership with the state and its sister counties.

The hospitality industry has enjoyed five consecutive years of record growth. We must be mindful, however, that the economy is fragile. The past five years were preceded by the difficult times caused by the Great Recession, the outcome of the Japan tsunami of 2011, and other forces beyond our control. If there is anything we can control, it is the quality of the visitor experience and our appeal to travelers. In this regard, remaining cost-competitive and not viewing the visitor industry as a source of endless wealth for government must be foremost if we are to maintain our status as a prime destination for many years to come.

Mahalo for the opportunity to offer this testimony.